

## Intangibles Enterprise Project 2012

By Frank Partlow

The original idea was to see if we could, with a small grant from the State, convince ten “Intangible Enterprises” (IE) to relocate from Northern California to Northern Nevada. Ultimately, the Governor’s Office of Economic Development (GOED) wanted to know whether relocating “Intangible Enterprises” to Nevada is a viable economic development objective for the State and, if so, how to do it. We now believe that it is. What follows is why and how.

Our definition of an IE was one which produced no tangible product; owned no significant physical assets and met only occasionally with clients in person. About sixty percent of the IE initially identified by UNR research met this definition, based on web site reviews and actual contact with enterprise employees. After our volunteer recruiters made over 500 telephone calls to prospects in Sacramento and Contra Costa counties, there were no firm commitments to relocate. However, a consistent fifteen percent of verified IE owners indicated that they had seriously considered leaving California in recent years.

Among hundreds of cold call failures, were encouraging conversations like: “I can’t get out of California fast enough, but. . . .” It’s what comes after the “but” that is problematic to actual relocation to Nevada.

“I have an under water mortgage.” (Many IE’s are home-based businesses)

“I do business with the State of California.”

“My long-term employees or family won’t move.”

“I am too old—I will retire first.”

**What We Recommend** To cut initial UNR lists to manageable size (6400 to 300), they should be prioritized towards verified owners of IE with 1-5 employees and annual sales of \$250,000-\$8 million. Owners are the decision makers in these small enterprises.

EDAWN should hire hourly rate screeners and train them sufficiently to develop website verification of IE info before lists are turned over to professional solicitors, who would then make calls to prospects. Commercial real estate brokers should be willing to make a few such calls each day to potential office space tenants.

EDAWN should assign a relocation expert to the final process of responding to the myriad issues confronted by, and recommending expert assistance to, any prospect verified by these volunteer solicitors as serious about relocating to Northern Nevada.

Initially, these IE relocation responsibilities could be part time, but we expect that they will grow into at least one full time position. We believe that once tested, such a process could readily be scaled to the State (GOED) level. **In any case, EDAWN and GOED will have to take ownership of this entire IE relocation recruitment process for it to succeed.**

As part of that ownership, a relocation stipend or reimbursement inducement for out of State IE to relocate to Nevada should be considered, perhaps using Catalyst funding. IE are aware that relocation incentives, like tax abatements, are offered as inducements to “tangible” businesses.

**What We Suspect** IE are “silos” of totally separate business interests whose commonality is their “intangibility.” They don’t join groups or associations as IE, nor do they “cluster” that way.

Nevada should focus on IE prospects that want more than Nevada's financial and logistical advantages. For example, they may seek access to year-around outdoor sports-- skiing, hiking, mountain biking--and a low-stress lifestyle.

Networking needs to be exploited. It may be possible to get tangible business referrals or use association lists of similar IE, like hedge funds, to aid in recruiting them to move to Nevada.

**What We Think We Know** Research done by think tanks and academia across the country basically reaches the same conclusion: **IE make economic development sense because they provide mid-level wages and require less infrastructure than manufacturing and construction sectors.**

Differentiation of Nevada from other states probably comes down to:

- low tax structure
- lower cost of living
- spacious, beautiful natural environment
- ease of global air travel (Reno and Las Vegas regions)

Some experts argue that this relocation approach is not cost-effective because it will cost Nevada more to recruit these small enterprises (using the techniques and incurring the costs of recruitment for much larger companies) than they return to the State in tax revenues. However, recent UNR analysis concludes that **state and local government revenue generated by existing Nevada IE amounts to over \$16,000 per direct employee annually. The recruiting challenge is one of marketing. GOED and EDAWN should be able to generate sufficient revenue through relocated IE employees to make that effort cost effective.**

New Mexico is also pursuing intangibles, which they call "solopreneurs." They concur with our analysis that intangibles are "economic base" companies. However, New Mexico is trying to create IE rather than to recruit them.

2013 marketing techniques, which were only touched on, are essential to the success of any statewide IE effort. A chart with hot links could direct business owners to web pages expanding on each of Nevada's desirability factors. Internet techniques like banners or small ad windows on business sector websites and digital publications should be explored. Educating IE in this way will be effective because they are knowledgeable and tech savvy.

**What We Don't Know** We don't know how many of the existing 10,000 Nevada IE moved here and how many were "born" here. We don't know for sure what caused them to move here and what will cause them to stay. Since most IE are very guarded and tend to "fly under the radar," it is doubtful that we will ever know the answers to these questions.

Hence, a final recommendation is that Nevada do both—**recruit existing IE from out of state and grow them from within.** New Mexico has created a sophisticated approach designed to convert a portion of the existing pool of unemployed and underemployed residents there into productive workers. Although this program has appeal for every age group, Nevada could usefully target today's college-educated, recreation-oriented, independent-minded younger generation because today's youngsters tend *first* to find a place they want to live, *then* begin to find a way to make a living in that location.